

**S.E.C. RULE 15c2-12  
ANNUAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2001**

The State of California (the "State"), acting by and through the State Treasurer of the State of California, hereby provides its annual report for the fiscal year ended June 30, 2001 in connection with the following:

**Bond Issues**

State Public Works Board of the State of California Lease Revenue Bonds (the "Bonds") as listed on the attached Exhibit 1. Also listed on Exhibit 1 are the dates of the Continuing Disclosure Agreements (the "Disclosure Agreements") executed by the State in connection with each issue of the Bonds and the dated dates for each issue.

Note: The base CUSIP numbers provided in Exhibit 1 are for the convenience of Bondholders. The State Treasurer's Office is not responsible for the accuracy or completeness of such numbers.

**Annual Report**

The State's "annual report" (as defined in the Disclosure Agreements for the Bonds) for the fiscal year ended June 30, 2001 consists of:

1. Financial information (including the General Purpose Financial Statements for the State) contained in Appendix A of the Official Statement, dated March 1, 2002, with respect to State Public Works Board of the State of California Lease Revenue Bonds, 2002 Series A, 2002 Series B, and 2002 Series C (the "OS"), which information is incorporated herein by reference. A copy of the OS has previously been filed with each of the Nationally Recognized Municipal Securities Information Repositories and is available from any of them.
2. Information relating to the outstanding debt of the State Public Works Board as set forth in Exhibit 2 attached hereto.
3. Financial information relating to the The Regents of the University of California for the fiscal year ended June 30, 2001, including the table entitled "University of California Current Funds Expenditures and Resources Utilized," as set forth in Exhibit 3 attached hereto.
4. Information relating to the Governmental Cost Funds Transportation Funds Statement of Operations and Governmental Cost Funds Transportation Funds Balance Sheet as set forth in Exhibit 4 attached hereto.

5. The Board confirms that the insurance required by each of the Facility Leases relating to each issue of the Bonds listed on the attached Exhibit 1 is in effect.

### **Other Matters**

This annual report is provided solely for purposes of the Disclosure Agreements. The filing of this report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the State or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this report relates (other than as referred to in this report), or that no other information exists, which may have a bearing on the State's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this annual report should be construed as a prediction or representation about future financial performance of the State.

The information provided herein may relate to bonds or other obligations of the Board in addition to the ones listed above.

Dated: March 25, 2002

State of California

By \_\_\_\_\_  
Deputy Treasurer

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Bonds (Department of the Youth Authority) 2001 Series B (Various Correctional Projects)	12/1/2001	12/5/2001
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2001 Series A (Hospital Addition at Atascadero State Hospital)	12/1/2001	12/5/2001
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) 2001 Series A (Various University of California Projects)	3/1/2001	3/28/2001
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2001 Series B (California Substance Abuse Treatment Facility and State Prison at Corcoran (Corcoran II))	3/1/2001	3/28/2001
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2001 Series A (California State Prison - Lassen County, Susanville)	3/1/2001	3/28/2001
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2000 Series E (Block 224 State Parking Garage)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Justice) Series 2000 Series D (Various Replacement Laboratory Projects)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (California Highway Patrol) 2000 Series C (Various Are Office Projects)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Youth Authority) 2000 Series B (Various Correctional Projects)	6/1/2000	6/28/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2000 Series A (Various Correctional Projects)	6/1/2000	6/28/2000

State Public Works Board of the State of California Lease Revenue Bonds (Department of Veterans Affairs of the State of California) 1999 Series A (Southern California Veterans Home - Chula Vista Facility)	12/1/1999	12/2/1999
State Public Works Board of the State of California Lease Revenue Bonds (California Department of Health Services) 1999 Series A (Richmond Laboratory Project)	10/1/1999	10/1/1999
State Public Works Board of the State of California Lease Revenue Bonds 1999 Series B (Various Community College Projects)	6/1/1999	6/29/1999
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1999 Series A (Various Community College Projects)	4/1/1999	4/29/1999
State Public Works Board of the State of California Energy Efficiency Revenue Bonds Series 1998A	11/1/1998	11/1/1998
State Public Works Board of the State of California Energy Efficiency Refunding Revenue Bonds Series 1998B	11/1/1998	11/1/1998
State Public Works Board of the State of California Lease Revenue Bonds 1998 Series A (Department of Forestry and Fire Protection Telecommunication Towers and Vaults)	11/1/1998	11/17/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1998 Series C (California State Prison-Monterey County (Soledad II))	11/1/1998	11/5/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Department of Justice Building)	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of the California State University) (Various California State University Projects) 1998 Series C	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) (Various University of California Projects) 1998 Series F	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series D	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series C	10/1/1998	11/19/1998

State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Library and Courts Annex Building Complex)	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Franchise Tax Board Central Office Project - Phase II)	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) (Various University of California Projects) 1998 Series C	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) (Various University of California Projects) 1998 Series B	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) (Various University of the California Projects) 1998 Series A	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1998 Series B	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1998 Series A	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series B	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series A	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1998 Series B (California State Prison - Imperial County)	3/1/1998	4/15/1998
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections Emergency Bed Program) 1998 Series A	3/1/1998	3/1/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Veterans Affairs) 1997 Series A (Southern California Veterans Home - Barstow Facility)	12/1/1997	12/10/1997

State Public Works Board of the State of California Lease Revenue Bonds (The Regents of the University of California) 1997 Series C (Various University of California Projects)	12/1/1997	12/10/1997
State Public Works Board of the State of California Lease Revenue Bonds 1997 Series A (California Science Center)	12/1/1997	12/1/1997
State Public Works Board of the State of California Lease Revenue Bonds (Trustees of The California State University) 1997 Series C (Various California State University Projects)	11/1/1997	11/13/1997
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 1997 Series A (Various Community College Projects)	4/1/1997	4/1/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1997 Series D (California State Prisons - Imperial County)	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) (Various University of the California Projects) 1997 Series A	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) (Various University of the California Projects) 1997 Series B	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1997 Series A	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1997 Series B	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1996 Series C (California State Prisons - Imperial County)	11/1/1996	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series D (Various Community College Projects)	10/196	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1996 Series D (California State Prisons - Monterey County (Soledad II))	10/1/1996	11/6/1996

State Public Works Board of the State of California Lease Revenue Refunding Bonds 1996 Series A (Secretary of State and State Archives Building Complex)	10/1/1996	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Trustees of the California State University) 1996 Series A (Various California State University Projects)	9/1/1996	10/22/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series C (Various Community College Projects)	9/1/1996	10/22/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series B (Various Community College Projects)	9/1/1996	10/10/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1996 Series B (California State Prison - Monterey County (Soledad II))	9/1/1996	10/10/1996
State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1996A	9/1/1996	9/18/1996
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 1996 Series A (California Substance Abuse Treatment Facility and State Prison at Corcoran (Corcoran II))	4/1/1996	5/14/1996
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 1996 Series A (Various Community College Projects)	4/1/1996	4/1/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) 1995 Series B (Long Beach and San Luis Obispo Projects)	9/1/1995	9/1/1995
State Public Works Board of the State of California Lease Revenue Bonds 1995 Series A (Department of Justice Building)	5/1/1995	5/1/1995
State Public Works Board of the State of California Lease Revenue Bonds (The Trustees of The California State University) 1995 Series A (Various California State University Projects)	4/1/1995	5/4/1995
State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1995A	4/1/1995	4/19/1995

The base CUSIP numbers for the State Public Works Board issues listed above, except for Energy Efficiency Revenue Bonds, are 13068G - \_ \_ \_ and 13068H - \_ \_ \_.

The base CUSIP number for the State Public Works Board of the State of California Energy Efficiency Revenue Bonds is 130677 - \_ \_ \_.

Note: The base CUSIP numbers provided are for the convenience of Bondholders. The State Treasurer's Office is not responsible for the accuracy or completeness of such numbers.

## **Exhibit 2**

1. Information relating to outstanding debt of the Public Works Board (see also Appendix A of the Official Statement dated March 1, 2002)
  - a) As of March 1, 2002, the Board had unused authorization to issue an additional \$3,076,474,000 of lease revenue bonds. As of that date, the Pooled Money Investment Board had approved interim loans relating to these authorized projects totaling \$693,909,500.
  - b) The total outstanding bonds of the Board secured by the Master Indenture Reserve Fund (principal outstanding as of February 1, 2002) is located on page 29 of the referenced Official Statement.
2. Additional information relating to certain issues of bonds covered by this Annual Report:
  - a) Issue: Energy Efficiency Revenue Bonds, Series 1996A  
  
Project Status: 15 energy service projects completed (relating to approximately 88% of par value).  
  
1 energy service projects to be completed by March 2003 (relating to approximately 6% of par value).  
  
1 energy service project on hold (relating to approximately 6% of par value).
  - b) Issue: Energy Efficiency Revenue Bonds, Series 1998A  
  
Project Status: 3 energy service projects completed (relating to approximately 40% of par value).  
  
1 energy service projects to be completed by October 2002 (relating to approximately 12% of par value).  
  
1 energy service project to be completed by November 2002 (relating to approximately 12% of par value).  
  
1 energy service projects to be completed by December 2002 (relating to approximately 12% of par value).

1 energy service project to be completed by April 2003  
(relating to approximately 12% of par value).

1 energy service project to be completed by June 2003  
(relating to approximately 12% of par value).

**Energy service contract payments are being made on all projects.**

# Report of Independent Accountants

To The Regents of the University of California:

In our opinion, the accompanying balance sheet by fund group as of June 30, 2001 and the related statements of changes in funds balances (including Retirement System funds) and current funds revenues, expenditures and other changes for the year then ended, present fairly, in all material respects, the financial position of the University of California (the University) at June 30, 2001, the changes in its funds balances (including Retirement System funds), and its current funds revenues, expenditures and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the University's 2000 financial statements, and in our report dated September 26, 2000, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the summary of significant accounting policies, during the year ended June 30, 2001, the University adopted Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

A handwritten signature in dark ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
September 21, 2001

University of California  
Balance Sheet by Fund Group

(including Retirement System funds)  
As of June 30, 2001, with comparative totals as of June 30, 2000  
(in thousands of dollars)

	Current Funds	Loan Funds	Endowment and Similar Funds	PLANT FUNDS				Agency Funds	Retirement System Funds	TOTAL ALL FUNDS (Memorandum Only )	
				Unexpended	Retirement of Indebtedness	Renewals and Replacements	Investment in Plant			2001	2000
ASSETS											
Cash	\$ 147,501			\$ 4,545						\$ 152,046	\$ 117,852
Investments	5,849,298	\$ 63,915	\$5,520,003	1,064,310	\$230,979	\$324,490		\$708,476	\$54,992,937	68,754,408	67,158,915
Participants' interest in external mutual funds									1,510,494	1,510,494	1,692,318
Accounts receivable:											
State and Federal government	457,503	795		49,424						507,722	421,822
Medical centers (net of \$133,077 allowance)	488,482									488,482	513,510
Investment income	73,582		30,361						240,676	344,619	288,888
Other (net of \$249,181 allowance)	574,089	517	13,251	69,271		103			173,790	831,021	779,770
Investments held by trustees	249,538	383		2,604	163,574	489				416,588	387,416
Due from other funds	212		35,372	1,379					98,194	135,157	125,881
Inventories and deferred charges	195,325			1,491						196,816	187,898
Notes receivable (net of \$14,983 allowance)		290,596								290,596	281,658
Land, buildings, equipment, libraries and collections							\$18,205,528			18,205,528	16,865,382
Investment in UCSF Stanford Health Care							6,843			6,843	15,400
Total assets	8,035,530	356,206	5,598,987	1,193,024	394,553	325,082	18,212,371	708,476	57,016,091	91,840,320	88,836,710
LIABILITIES AND FUND BALANCES											
Liabilities											
Accounts payable	847,356		107,783	88,708	477	80			570,250	1,614,654	840,283
Accrued liabilities:											
Salaries and benefits	290,267									290,267	241,840
Self-insurance	402,800									402,800	362,300
Compensated absences	403,382									403,382	359,363
Other	89,714	240								89,954	92,262
Collateral held for securities lending	2,277,820		834,129						9,347,615	12,459,564	8,640,549
Advance collections and deposits	377,208									377,208	248,490
Funds held for others								708,476		708,476	749,991
Revenue bonds		1,605		97,280	2,890		3,010,115			3,111,890	2,754,000
Certificates of participation				3,214			290,851			294,065	304,865
Commercial paper	1,034			217,087			331,879			550,000	550,000
Mortgages and other borrowings							50,686			50,686	150,164
Capital lease obligations					33,506		1,131,049			1,164,555	1,211,617
Due to other funds	104,058	2,000		146		11	28,942			135,157	125,881
Total liabilities	4,793,639	3,845	941,912	406,435	36,873	91	4,843,522	708,476	9,917,865	21,652,658	16,631,605
Fund Balances											
Unrestricted	2,099,635	29,120	994,658	353,471	212,182	324,513				4,013,579	3,863,242
Restricted	1,142,256	134,887	3,662,417	433,118	145,498	478				5,518,654	5,331,492
U.S. Government grants refundable		188,354								188,354	181,283
Investment in plant							13,368,849			13,368,849	12,249,011
Members' defined benefit plan benefits								38,954,530		38,954,530	42,166,534
Participants' defined contribution plan benefits								8,143,696		8,143,696	8,413,543
Total fund balances	3,241,891	352,361	4,657,075	786,589	357,680	324,991	13,368,849		47,098,226	70,187,662	72,205,105
Total liabilities and fund balances	\$8,035,530	\$356,206	\$5,598,987	\$1,193,024	\$394,553	\$325,082	\$18,212,371	\$708,476	\$57,016,091	\$91,840,320	\$88,836,710

See accompanying Notes to Financial Statements

University of California  
Statement of Changes in Funds Balances

(including Retirement System funds)  
For the fiscal year ended June 30, 2001, with comparative totals for 2000  
(in thousands of dollars)

	CURRENT FUNDS				PLANT FUNDS						TOTAL ALL FUNDS (Memorandum Only)		
	Total	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Retirement of Indebtedness	Renewals and Replacements	Investment in Plant	Retirement System Funds	2001	2000	
	Current Funds												
Revenues and Other Additions													
Student tuition and fees	\$ 1,189,515	\$1,189,515				\$ 2,007	\$ 15,724				\$ 1,207,246	\$ 1,131,054	
State of California	3,440,085	2,968,857	\$ 471,228			199,290					3,639,375	3,126,672	
Federal government	4,947,104	394,703	4,552,401	\$ 2,515		62,613					5,012,232	4,768,282	
Local government	113,513	2,438	111,075								113,513	112,964	
Private gifts, grants and contracts	1,045,326	91,264	954,062	682	\$ 48,036	101,908			\$ 36,891		1,232,843	943,836	
Sales and services:													
Educational activities	779,711	779,711									779,711	869,243	
Medical centers	2,856,719	2,856,719									2,856,719	2,088,317	
Auxiliary enterprises	676,412	676,412									676,412	639,794	
Investment income:													
Endowment and similar funds	158,621	36,371	122,250		8,778						167,399	149,205	
Securities lending	144,776	97,232	47,544							\$ 531,612	676,388	542,543	
Other	220,786	199,561	21,225	11,187		35,435	38,066	\$ 25		1,663,141	1,968,640	2,004,405	
Net appreciation (depreciation) in fair value:													
Investments	104,208	71,133	33,075	772	(501,074)	5,546	6,963	3,933		(4,133,420)	(4,513,072)	4,337,698	
External mutual funds										(470,176)	(470,176)	127,791	
Retirement system contributions:													
University										517	517	1,584	
Members and participants										619,735	619,735	557,441	
Additions to plant facilities (including \$483,107 of current funds)													
									1,531,770		1,531,770	1,267,981	
UCSF Stanford Health Care:													
Operating loss											—	(62,321)	
Distributions and other changes, net									(8,557)		(8,557)	357,348	
Retirement of indebtedness													
Other revenues	281,467	281,467		5,800					257,766		263,566	157,553	
Other additions	56,627	51,209	5,418	4,770	48,959	8,218		1,935			120,509	97,762	
Total revenues and other additions	16,014,870	9,696,592	6,318,278	25,726	(395,301)	415,017	60,753	5,893	1,817,870	(1,788,591)	16,156,237	23,673,596	
Expenditures and Other Deductions													
Educational and general	8,310,815	5,494,534	2,816,281								8,310,815	7,676,541	
Medical centers	2,729,610	2,723,723	5,887								2,729,610	2,027,619	
Auxiliary enterprises	532,013	524,735	7,278								532,013	518,682	
Department of Energy Laboratories	3,070,379		3,070,379								3,070,379	2,996,653	
Securities lending fees and rebates	138,085	92,824	45,261							507,511	645,596	520,849	
Plant funds expenditures (including noncapitalized expenditures of \$16,489)													
						404,511		21,477			425,988	399,929	
Issuance of debt obligations													
						66,767			397,349		464,116	345,803	
Debt service:													
Principal				5,800			253,509				259,309	157,553	
Interest				516			257,144				257,660	253,527	
Disposals and write-offs of plant assets													
									228,515		228,515	351,381	
Retirement system funds expenditures:													
Benefit payments and withdrawals										1,151,481	1,151,481	1,132,313	
Administrative										33,334	33,334	25,911	
Other deductions	71,540	61,176	10,364	6,603	5,596		950	1,582	106,664		192,935	58,927	
Total expenditures and other deductions	14,852,442	8,896,992	5,955,450	12,919	5,596	471,278	511,603	23,059	732,528	1,692,326	18,301,751	16,465,688	
Transfers Among Funds													
Mandatory (contractual arrangements):													
Renewals and replacements							52	(52)			—	—	
Loan funds matching grants	(51)	181	(232)	51							—	—	
Principal and interest	(338,211)	(229,491)	(108,720)				338,211				—	—	
Nonmandatory (discretionary allocations)	(582,979)	(493,998)	(88,981)	215	62,809	299,012	156,464	30,917	34,496	(934)	—	—	
Total transfers among funds	(921,241)	(723,308)	(197,933)	266	62,809	299,012	494,727	30,865	34,496	(934)	—	—	
Cumulative Effect of Accounting Change													
Participants' interest in external mutual funds												—	1,229,620
Net increase (decrease) for the year	241,187	76,292	164,895	13,073	(338,088)	242,751	43,877	13,699	1,119,838	(3,481,851)	(2,145,514)	8,437,528	
Fund balances, beginning of year	2,965,905	2,023,343	942,562	339,288	4,995,163	450,566	313,803	311,292	12,249,011	50,580,077	72,205,105	63,767,577	
Restatement of fund balances:													
Pledges of private gifts and accrual of state capital appropriations	34,799		34,799			93,272					128,071	—	
Fund balances, beginning of year (restated)	3,000,704	2,023,343	977,361	339,288	4,995,163	543,838	313,803	311,292	12,249,011	50,580,077	72,333,176	63,767,577	
Fund balances, end of year	\$ 3,241,891	\$2,099,635	\$1,142,256	\$352,361	\$4,657,075	\$786,589	\$357,680	\$324,991	\$13,368,849	\$47,098,226	\$70,187,662	\$72,205,105	

# University of California

## Statement of Current Funds Revenues, Expenditures and Other Changes

For the fiscal year ended June 30, 2001, with comparative totals for 2000  
(in thousands of dollars)

	Unrestricted	Restricted	2001 Total	(Memorandum Only) 2000 Total
<b>REVENUES</b>				
Student tuition and fees	\$1,189,515		\$ 1,189,515	\$ 1,113,853
State of California appropriations, grants and contracts	2,968,857	\$ 398,670	3,367,527	2,844,000
Federal appropriations, grants and contracts	363,585	1,487,872	1,851,457	1,709,112
Local government grants and contracts	2,438	118,501	120,939	109,305
Private gifts, grants and contracts	91,264	942,311	1,033,575	818,754
Sales and services:				
Educational activities	779,711		779,711	869,243
Medical centers	2,856,719		2,856,719	2,088,317
Auxiliary enterprises	676,412		676,412	639,794
Investment income:				
Endowment and similar funds	36,371	122,250	158,621	142,994
Securities lending	97,232	47,544	144,776	92,276
Other	199,561	21,225	220,786	202,809
Net appreciation (depreciation) in fair value of investments	71,133	33,075	104,208	(27,330)
Department of Energy Laboratories	31,118	3,070,379	3,101,497	3,027,949
Other revenues	281,467		281,467	454,444
<b>Total revenues</b>	<b>9,645,383</b>	<b>6,241,827</b>	<b>15,887,210</b>	<b>14,085,520</b>
<b>EXPENDITURES AND MANDATORY TRANSFERS</b>				
<b>Educational and general:</b>				
Instruction	2,397,811	183,919	2,581,730	2,416,574
Research	391,534	1,927,468	2,319,002	2,084,622
Public service	237,746	156,973	394,719	294,222
Academic support	919,080	141,053	1,060,133	1,147,450
Student services	324,390	18,550	342,940	305,088
Institutional support	593,035	45,167	638,202	578,252
Operation and maintenance of plant	430,727	1,104	431,831	357,492
Student financial aid	200,211	342,047	542,258	492,841
<b>Educational and general expenditures</b>	<b>5,494,534</b>	<b>2,816,281</b>	<b>8,310,815</b>	<b>7,676,541</b>
<b>Mandatory transfers:</b>				
Loan fund matching grant	(181)	232	51	1,277
Debt service	118,205	108,720	226,925	206,030
<b>Total educational and general</b>	<b>5,612,558</b>	<b>2,925,233</b>	<b>8,537,791</b>	<b>7,883,848</b>
<b>Medical centers:</b>				
Expenditures	2,723,723	5,887	2,729,610	2,027,619
Mandatory transfers	59,194		59,194	54,127
<b>Total medical centers</b>	<b>2,782,917</b>	<b>5,887</b>	<b>2,788,804</b>	<b>2,081,746</b>
<b>Auxiliary enterprises:</b>				
Expenditures	524,735	7,278	532,013	518,682
Mandatory transfers	52,092		52,092	51,549
<b>Total auxiliary enterprises</b>	<b>576,827</b>	<b>7,278</b>	<b>584,105</b>	<b>570,231</b>
<b>UCSF Stanford Health Care loss</b>			—	62,321
<b>Securities lending fees and rebates</b>	92,824	45,261	138,085	88,448
<b>Department of Energy Laboratories</b>		3,070,379	3,070,379	2,996,653
<b>Total expenditures and mandatory transfers</b>	<b>9,065,126</b>	<b>6,054,038</b>	<b>15,119,164</b>	<b>13,683,247</b>
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>				
Restricted receipts in excess of restricted expenditures		71,033	71,033	109,472
Nonmandatory transfers	(493,998)	(88,981)	(582,979)	(371,529)
Other	(9,967)	(4,946)	(14,913)	50,373
<b>Net increase in fund balances</b>	<b>\$ 76,292</b>	<b>\$ 164,895</b>	<b>\$ 241,187</b>	<b>\$ 190,589</b>

See accompanying Notes to Financial Statements

# UNIVERSITY OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

### ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board—The Regents of the University of California (The Regents)—are appointed by the governor and approved by the state Senate. In addition, various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general purpose financial statements as a component unit.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared in accordance with generally accepted accounting principles, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15 and the American Institute of Certified Public Accountants *College and University Audit Guide*, including all applicable effective statements of the GASB.

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," was adopted by the University on July 1, 2000. Statement No. 33 establishes accounting and financial reporting standards for transactions in which the University receives value without directly giving equal value in exchange. Gifts are recorded as revenue when received. Unconditional pledges of private gifts are recorded as revenue in the year promised and state capital appropriations received in advance of the capital expenditure are recorded as deferred revenue, or accrued revenue if not received in advance of the capital expenditure.

Previously, unrestricted gifts and all state capital appropriations were recorded as revenue when received. Restricted gifts were reported in fund balance as "Restricted receipts in excess of restricted expenditures" when received, then recorded as revenue when expended for current operating purposes. Unconditional pledges of private gifts were not recorded, but were disclosed in the footnotes to the financial statements.

In accordance with GASB Statement No. 33, the cumulative effect of the accrual of private gifts and all state capital appropriations was reflected as a restatement of beginning fund balances as of July 1, 2000. In addition, restatements of prior year restricted receipts were made for purposes of presenting comparative information for the year ended June 30, 2000. The effect of changes from the adoption of GASB Statement No. 33 on current and prior years is as follows (in thousands of dollars):

	Revenues and Other Additions	Other Transfers and (Deductions)	Restatement of Beginning Fund Balances	Increase in Fund Balance
<b>For the year ended June 30, 2000</b>				
Reclassification of restricted gifts and related income	\$154,532	\$(154,532)		
<b>Total</b>	<b>154,532</b>	<b>(154,532)</b>		
<b>For the year ended June 30, 2001</b>				
Cumulative effect of:				
Pledges of private gifts and accrual of state capital appropriations			\$128,071	\$128,071
Current year effect of:				
Pledges of private gifts and accrual of state capital appropriations	53,185			53,185
Reclassification of restricted gifts and related income	220,475	(220,475)		
<b>Total</b>	<b>\$273,660</b>	<b>\$(220,475)</b>	<b>\$128,071</b>	<b>\$181,256</b>

The significant accounting policies followed by the University are summarized below.

## FINANCIAL REPORTING ENTITY

The financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the University of California Retirement System (UCRS). Where indicated, the financial statements also include in current restricted funds the operational results from three major Department of Energy (DOE) laboratories administered by the University under contract with the United States Department of Energy. Assets and liabilities of these laboratories are owned by the United States government rather than the University and are therefore not included in the financial statements. The operations of most student government or associated student organizations are also included in the reporting entity because The Regents has certain fiduciary responsibilities for these organizations. Organizations that are not financially accountable to the University, such as campus foundations and booster and alumni organizations, are not included in the reporting entity. However, funds invested with the University by these organizations have been reported in agency funds.

## BASIS OF ACCOUNTING

The financial statements of the University have been prepared on the accrual basis of accounting. The Statement of Current Funds Revenues, Expenditures and Other Changes is a statement of the financial activities of the current funds group for the reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income. This statement recognizes an important difference in format when compared to the current funds component of the Statement of Changes in Funds Balances. Restricted revenues, except restricted gifts, are reported on the Statement of Current Funds Revenues, Expenditures and Other Changes as revenues only to the extent they are utilized to fund current restricted expenditures. These amounts are reported in the Statement of Changes in Funds Balances when received. The excess of restricted receipts over revenues utilized, except for restricted gifts, is reported in "Other Transfers and Additions" within the Statement of Current Funds Revenues, Expenditures and Other Changes.

In order to ensure the observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds according to the activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics are combined into fund groups for reporting purposes.

Within each fund group, fund balances restricted by outside sources are indicated and distinguished from unrestricted funds that have been internally designated. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds, in contrast to unrestricted funds, which may be used in achieving any purpose of the University.

To the extent that current funds resources are used to finance plant assets, the amounts so provided are accounted for as 1) expenditures in the case of equipment, library books and collections and minor improvements, 2) mandatory transfers in the case of required provisions of debt agreements, and 3) nonmandatory transfers in all other cases.

Investment income, including realized gains and losses, derived from investments, receivables, and other assets is recorded in the fund owning the assets, except for income derived from investments of endowment and similar funds and renewals and replacements, which is recorded in the fund to which it is restricted or, if unrestricted, as revenue in current unrestricted funds. Unrealized gains and losses arising from the sale, collection or other disposition of investments and other non-cash assets are recorded in the fund owning the assets, except for those associated with the Short Term Investment Pool that are retained in Current Funds.

## FUND CLASSIFICATION

**Current funds** are used primarily to account for transactions directly related to the three missions of the University—instruction, research and public service. Academic support, medical centers, institutional support and operation and maintenance of plant are supporting programs. Programs providing support for students are student services, student financial aid and auxiliary enterprises. Current funds are primarily used for current operations; however, some amounts are transferred to other fund groups as necessary and may be expended in future years. Current funds are divided into two groups: unrestricted and restricted.

Current unrestricted funds account for all resources available for current operations that have not been restricted as to use by outside entities. Current operations include the University's educational and general purpose expenditures, medical centers and self-sustaining auxiliary enterprises. The University accounts for the majority of state appropriations and certain other revenues, such as student fees and medical center income, in the unrestricted funds group.

Current restricted funds account for resources made available to the University for operating purposes that have been restricted by outside entities. These resources generally are in the form of grants and contracts received by the University in support of research, educational and public service activities. Current restricted funds are reported as revenues and expenditures when expended for current operating purposes, except for restricted gifts. Restricted receipts, except for restricted gifts, in excess of restricted expenditures are recognized as a fund balance addition to current restricted funds.

**Loan funds** account for resources designated for loans primarily to students, but also to faculty (home mortgage loans). Student loan funds are provided from federal student loan programs and from University fund sources.

**Endowment and similar funds** consist of endowments, funds functioning as endowment, and annuity and life income funds. Endowments require that the principal be invested in perpetuity.

with the income used in accordance with the terms specified by the donor. Funds functioning as endowment are primarily gifts and related gains that the University treats as endowments, except that any portion of these funds may be expended at the University's discretion. Annuity and life income funds are held in trust by the University with the annuity or income paid periodically to designated beneficiaries; principal of these funds vests with the University and payments cease upon the death of the beneficiaries.

**Plant funds**, consisting of four subgroups, account for the resources invested in and available for University land, buildings, equipment, libraries and collections and debt retirement.

Unexpended plant funds account for resources received directly by the University from various sources to finance the acquisition, construction and renovation of capital assets.

Retirement of indebtedness funds are generally set aside for debt service from the current operations of facilities constructed with external borrowing pursuant to the terms of bond indentures and other contractual agreements.

Renewals and replacements funds are those funds that provide resources for the maintenance and renovation of plant fund assets, as distinguished from additions and improvements to plant assets.

Investment in plant funds includes all long-lived assets in the service of the University, including construction in progress and associated liabilities.

**Agency funds** are used to account for funds invested with the University as custodian for organizations that are not financially accountable to the University, primarily certain campus foundations. Consequently, the operating activity associated with these funds is not reported in the Statement of Changes in Funds Balances.

**University of California Retirement System funds** account for employer and employee contributions and plan benefits associated with the University's defined benefit and defined contribution retirement plans. The net assets are shown separately in the University's financial statements.

## OTHER ACCOUNTING POLICIES

**Cash.** The University considers all balances in demand deposit accounts to be cash.

**Investments.** Investments are generally stated at fair value. Generally, securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are valued based upon the latest available valuations determined by the general partners of the respective partnerships. Investments in registered investment companies are valued based upon the net asset value of those companies. Mortgage loans are valued on the basis of their future principal and interest payments discounted

at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. External mutual funds are valued daily by the registered investment companies based upon the net asset value of those companies.

**Participants' interest in external mutual funds.** Participants in the University's defined contribution retirement plans may invest their contributions in and transfer plan accumulations to funds managed by the Treasurer of The Regents or to certain external mutual funds on a custodian plan basis. Beginning July 1, 1999 the University changed its accounting policy to include participants' interests in external mutual funds within Retirement Systems Funds in the financial statements.

**Pledges.** Unconditional pledges of private gifts to the University in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods, and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met or when the promise is made.

**Inventories.** Inventories are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value.

**Investment in plant.** Consistent with generally accepted accounting principles, as defined above for public colleges and universities, land, buildings, equipment and libraries and collections are stated at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Additions, replacements, major repairs and renovations are recorded as additions. Depreciation on plant assets is not recorded. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project related borrowings.

**Investment in UCSF Stanford Health Care.** The affiliation between the University and Stanford University creating UCSF Stanford Health Care, a separate non-profit corporation, was terminated on March 31, 2000. The majority of the University's share of the net assets was distributed to the University on April 1, 2000. The University's remaining investment in UCSF Stanford Health Care is accounted for as a joint venture using the equity method of accounting.

**Student tuition and fees.** Substantially all of the student tuition and fees provide for current operations of the University and are recorded in the current unrestricted fund. A portion of the student fees is required to fund debt service for student union and recreational centers and is recorded in the plant funds. Waivers of student tuition and fees are recorded as student financial aid.

**State appropriations.** The state of California appropriates funds to the University on an annual basis. State appropriations are recognized as revenue in the current unrestricted or restricted funds when the related expenditures are made to support general operations or specific purposes, respectively. State appropriations for capital projects are recorded in unexpended plant funds as the related expenditures are incurred.

**Grant and contract income.** The University receives grant and contract income from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs in the current restricted funds as the related expenditures are incurred. Recovery of facilities and administrative costs of Federally sponsored programs is at cost reimbursement rates negotiated with the University's cognizant agency, the Department of Health and Human Services. In 2001, the facilities and administrative cost recovery totaled \$441.4 million; \$363.6 million from Federally sponsored programs and \$77.8 million from other sponsors.

**Medical center sales and services.** Medical center sales and services revenue is reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Compensated absences.** University employees accrue annual leave at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked. Compensated absences accrued and included in accrued liabilities as of June 30, 2001 were \$390.6 million for annual leave and \$12.8 million for compensatory time.

**Endowment spending.** Under provisions of California law, The Regents has adopted the Uniform Management of Institutional Funds Act (UMIFA). Investment income as well as a portion of realized and unrealized gains may be expended for the operational requirements of University programs.

**Tax exemption.** The University is qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

**Use of estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Memorandum totals.** The financial statements include certain prior year summarized comparative information. This information does not include sufficient detail to constitute a complete presentation in conformity with generally accepted accounting principles. Accordingly, this information should be read in conjunction with the University's financial statements for the year ended June 30, 2000 from which the summarized financial information was derived. Certain reclassifications have been made to the 2000 summarized financial information in order to conform to the 2001 presentation.

**New Accounting Pronouncements.** The GASB has issued Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities," Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus" and Statement No. 38, "Certain Financial Statement Note Disclosures." These Statements will be effective for the fiscal year beginning July 1, 2001.

Statement No. 35 establishes a fundamentally new financial reporting model for all public colleges and universities and will require the recording of depreciation of property and equipment. Financial reporting requirements will include Management's Discussion and Analysis; Basic Financial Statements consisting of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows; and Notes to the Financial Statements. In addition, the University of California Retirement System's Statements of Plan Net Assets and Changes in Plan Net Assets will be presented separately from the University of California's Basic Financial Statements.

Statement No. 37 clarifies guidance to be used in preparing Management's Discussion and Analysis. Statement No. 38 modifies, adds and deletes various note disclosure requirements.

The University is continuing to evaluate the effect the GASB Statement No. 35 will have on its financial statements. Statements No. 37 and No. 38 will have no effect on the University's fund balances.

## 1. CASH

The University minimizes its cash position by sweeping available cash balances into investment accounts daily. At June 30, 2001 the carrying amount of the University's demand deposits, held in nationally recognized banking institutions, was \$152.0 million compared to bank balances of \$74.9 million. Deposits in transit are the primary difference. The FDIC insured the bank balances for \$400 thousand.

## 2. INVESTMENTS AND SECURITIES LENDING

The Regents, as the governing Board, is responsible for the management of the University's investments and establishes investment policy, which is carried out by the Treasurer.

In March 2000, The Regents adopted an asset allocation strategy that modified the investment policies governing the management of the investments. The new policy sets a target allocation for each asset class within an allowable range that provides the flexibility to manage the portfolios to maximize returns and minimize risk. The changes to the portfolios resulting from the new investment policies have been implemented as of June 30, 2001.

All of the University's investments recorded in each fund group are associated with the University of California Retirement System (UCRS), General Endowment Pool (GEP), High Income Pool (HIP), Short Term Investment Pool (STIP) or are separately invested. Investments authorized by The Regents for the UCRS, GEP, HIP and other separate investments include equity securities, fixed income securities and a domestic and foreign indexed

fund. The equity portion of the investment portfolio may include both domestic and foreign common and preferred stocks, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-out and international funds. The fixed income portion of the investment portfolio may include both domestic and foreign securities, along with certain AAA-rated mortgage backed securities. These mortgage backed securities are used to diversify the portfolio and reduce market risk exposure. Where donor agreements place constraints on allowable investments, assets associated with endowment and similar funds are invested in accordance with the terms of the agreements. Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five years. In addition, The Regents has also authorized loans, primarily to faculty members, under the University's Mortgage Origination Program with terms up to 30 years.

The GEP and HIP are balanced portfolios in which a large number of individual endowment funds participate in order to benefit from diversification and economies of scale. The net assets of the endowment and similar funds group are invested in either the GEP, HIP, STIP or are separately invested. The separately invested funds cannot be pooled due to investment restrictions or income requirements.

All of the University's fund groups participate in the STIP. Current funds to provide for payroll, construction expenditures and other operating expenses of all campuses and medical centers are invested in the STIP until expended.

The composition of investments at June 30, 2001 by fund group, with comparative totals for 2000, is as follows (in thousands of dollars):

	STIP	Current Funds	Loan Funds	Endowment & Similar Funds	Plant Funds	Agency Funds	UCRS Funds	Total	
								2001	2000
<b>Investment Type</b>									
Equity securities:									
Domestic		\$ 498		\$2,091,208		\$232,606	\$21,501,759	\$23,826,071	\$27,071,218
Foreign				404,793		13,363	3,895,549	4,313,705	3,594,408
Private				93,029		41,529	758,203	892,761	1,856,984
Fixed income securities:									
U.S. government	\$ 2,878,206			922,634		122,747	11,196,113	15,119,700	13,299,134
Other U.S. dollar denominated	4,208,120			592,944	\$ 84	75,013	5,280,130	10,156,291	9,235,447
Foreign				121,538		14,771	956,202	1,092,511	2,684,266
Mortgage loans	386,728	216		2,145				389,089	300,085
Insurance contracts							299,770	299,770	261,032
Other investments		6,449		177,193	10,587			194,229	218,554
Investments owned	7,473,054	7,163		4,405,484	10,671	500,029	43,887,726	56,284,127	58,521,128
Investment of cash collateral	2,279,779			834,847			9,355,655	12,470,281	8,637,787
STIP	(9,752,833)	5,842,135	\$63,915	279,672	1,609,108	208,447	1,749,556		
<b>Total investments</b>	<b>\$ —</b>	<b>\$5,849,298</b>	<b>\$63,915</b>	<b>\$5,520,003</b>	<b>\$1,619,779</b>	<b>\$708,476</b>	<b>\$54,992,937</b>	<b>\$68,754,408</b>	<b>\$67,158,915</b>

Net depreciation in the fair value of investments during the year ended June 30, 2001 was \$4.51 billion. This amount includes all changes in fair value, including both realized and unrealized gains and losses, that occurred during the year. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in the fair value of investments held at year-end. During the year ended June 30, 2001, the University realized a net gain of \$8.32 billion (on an average cost basis) from the sale of investments. The net unrealized depreciation during the year on investments held at year-end was \$12.83 billion.

The components of the net appreciation (depreciation) of investments for the year ended June 30, 2001 by fund group, with comparative totals for 2000, are as follows (in thousands of dollars):

	Current Funds	Loan Funds	Endowment & Similar Funds	Plant Funds	UCRS Funds	Total	
						2001	2000
Realized gains on sale of investments	\$ 6,553	\$146	\$ 875,069	\$ 839	\$ 7,434,386	\$ 8,316,993	\$4,752,973
Unrealized appreciation (depreciation)	97,655	626	(1,376,143)	15,603	(11,567,806)	(12,830,065)	(415,275)
<b>Net appreciation (depreciation) in fair value of investments</b>	<b>\$104,208</b>	<b>\$772</b>	<b>\$ (501,074)</b>	<b>\$16,442</b>	<b>\$ (4,133,420)</b>	<b>\$ (4,513,072)</b>	<b>\$4,337,698</b>

The investments that are owned and not lent, or owned and lent for securities collateral, are insured, registered or held in the University's name by the University's custodial bank as an agent for the University. Investments of cash collateral are held by the University's custodian and designated as University investments in the records of the custodian. Investments that are not categorized include venture capital/private equity funds, mortgage loans, insurance contracts, other investments and investments owned and lent for cash collateral.

The composition of investments at June 30, 2001 by investment pool is as follows (in thousands of dollars):

	STIP	GEP	HIP	Separately Invested	UCRS Funds	Total
<b><u>Investments owned and not lent</u></b>						
Equity securities:						
Domestic		\$2,229,400	\$ 12,495	\$ 18,955	\$20,923,229	\$23,184,079
Foreign		418,156			3,895,549	4,313,705
Private		134,558			758,203	892,761
Fixed income securities:						
U.S. government	\$ 528,275	328,959	7,508	15,585	2,962,433	3,842,760
Other U.S. dollar denominated	4,195,820	622,199	35,756	3,142	5,228,636	10,085,553
Foreign		34,701	3,684	25	159,708	198,118
Mortgage loans	386,728			2,361		389,089
Insurance contracts					299,770	299,770
Other investments				194,229		194,229
<b>Investments owned and not lent</b>	<b>5,110,823</b>	<b>3,767,973</b>	<b>59,443</b>	<b>234,297</b>	<b>34,227,528</b>	<b>43,400,064</b>
<b><u>Investments owned and lent</u></b>						
<i>For cash collateral</i>						
Equity securities:						
Domestic		60,965	302		558,522	619,789
Fixed income securities:						
U.S. government	2,189,793	612,912	33,169		7,672,588	10,508,462
Other U.S. dollar denominated	12,300	6,651	293		51,494	70,738
Foreign		89,923	2,183		754,245	846,351
<b>Investments lent for cash collateral</b>	<b>2,202,093</b>	<b>770,451</b>	<b>35,947</b>		<b>9,036,849</b>	<b>12,045,340</b>
<i>For securities collateral</i>						
Equity securities:						
Domestic		2,184	11		20,008	22,203
Fixed income securities:						
U.S. government	160,138	44,822	2,426		561,092	768,478
Foreign		5,563	230		42,249	48,042
<b>Investments lent for securities collateral</b>	<b>160,138</b>	<b>52,569</b>	<b>2,667</b>		<b>623,349</b>	<b>838,723</b>
<b>Investments owned and lent</b>	<b>2,362,231</b>	<b>823,020</b>	<b>38,614</b>		<b>9,660,198</b>	<b>12,884,063</b>
<b>Total investments owned</b>	<b>7,473,054</b>	<b>4,590,993</b>	<b>98,057</b>	<b>234,297</b>	<b>43,887,726</b>	<b>56,284,127</b>
<b><u>Investment of cash collateral</u></b>						
Fixed income securities:						
Other U.S. dollar denominated	2,279,779	797,632	37,215		9,355,655	12,470,281
<b>Total investments</b>	<b>\$9,752,833</b>	<b>\$5,388,625</b>	<b>\$135,272</b>	<b>\$234,297</b>	<b>\$53,243,381</b>	<b>\$68,754,408</b>

The total investment return (loss), representing the combined income plus appreciation or depreciation in the fair value of investments, for the year ended June 30, 2001 was (6.9) percent for the GEP, 12.1 percent for the HIP and (5.4) percent for the UCRS. The investment return, representing combined income and realized gains or losses, for the same period was 6.2 percent for the STIP. Separately invested funds consist of numerous, small portfolios of investments, each with its individual rate of return.

The University participates in a securities lending program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received in excess of the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. Government or its agencies, or the sovereign or provincial debt of

foreign countries. Any collateral securities cannot be pledged or sold by the University unless the borrower defaults. Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100 percent of the fair value of securities lent. The University receives interest and dividends during the loan period as well as a fee from the brokerage firm. Securities on loan for cash collateral are not considered to be categorized. At June 30, 2001 the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. The University is fully indemnified by its custodial bank against any losses

incurred as a result of borrower default. The collateral and related obligations are recorded on the balance sheet of the University.

Securities loans immediately terminate upon notice by either the University or the borrower. Cash collateral is invested by the University's lending agent, as an agent for the University, in a short-term investment pool in the University's name, with guidelines approved by the Treasurer of The Regents. At June 30, 2001 the securities in this pool had a weighted average maturity of 142 days.

The University's investment portfolio also includes certain foreign denominated securities. To reduce the exposure to foreign currency fluctuations inherent in such investments, the University may enter into foreign currency forward contracts and options. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2001 the University had a net unrealized gain of \$2.6 million on outstanding forward commitments to sell foreign currency. Any losses at contract maturity are offset by gains on the currency in the University's portfolio of foreign securities.

The STIP, GEP and HIP may include investments on behalf of organizations that are not financially accountable to the University, primarily certain campus foundations. These organizations are not required to invest in these pools and receive no guarantee to support the value of shares. Participants purchase or redeem shares in the STIP at a constant value of \$1 per share. Participants purchase or redeem shares in the GEP and the HIP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The composition of the net assets at June 30, 2001 for the STIP, GEP and HIP is as follows (in thousands of dollars):

	STIP	GEP	HIP
Investments	\$ 9,752,833	\$5,388,625	\$135,272
Investments in the STIP		165,252	2,024
Other assets (liabilities), net	551,552	(59,704)	(1,616)
Securities lending collateral	(2,279,780)	(797,632)	(37,215)
<b>Net assets</b>	<b>\$ 8,024,605</b>	<b>\$4,696,541</b>	<b>\$ 98,465</b>

At June 30, 2001 the fair value of the investments of organizations that are not financially accountable to the University included in the STIP was \$208.4 million, the GEP was \$456.0 million and the HIP was \$29.6 million. Another \$14.5 million is separately invested. These investments are included within agency funds in the University's financial statements.

The changes in net assets for the STIP, GEP and HIP for the year ending June 30, 2001 are as follows (in thousands of dollars):

	STIP	GEP	HIP
Net assets at June 30, 2000	\$7,561,044	\$5,055,665	\$115,263
Participant contributions (withdrawals), net	(119,086)	139,689	(22,470)
Investment income	446,187	18,898	689
Net appreciation (depreciation) in fair value of investments	136,460	(517,711)	4,983
<b>Net assets at June 30, 2001</b>	<b>\$8,024,605</b>	<b>\$4,696,541</b>	<b>\$ 98,465</b>

### 3. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trust funds for the University's self-insurance programs and for long-term debt requirements. All investments held by trustees are insured, registered or held by the University's trustee or custodial bank, as fiduciary for the bondholder or as agent for the University.

#### SELF-INSURANCE PROGRAMS

Investments held by trustees in the current funds group include separate trusts for self-insured workers' compensation and professional medical and hospital liability programs. The trust agreements permit the trustee to invest in U.S. and state government or agency obligations, corporate debt securities, commercial paper or certificates of deposit. The fair value of these investments was \$249.5 million at June 30, 2001. Floating rate notes and collateralized mortgage obligations, with underlying government agency collateral or credit ratings ranging from A to AAA, are utilized within the investment constraints in order to enhance investment returns over other high-grade fixed income asset classes. At June 30, 2001 the trustees held floating rate notes representing 6 percent of the combined self-insurance trust portfolios and collateralized mortgage obligations representing 56 percent of the combined self-insurance trust portfolios.

#### LONG-TERM DEBT

The trust agreements for long-term debt permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Investments held by trustees in the loan funds group are for future payment of principal and interest in accordance with various indenture and other long-term debt requirements. The fair value of these investments was \$383 thousand at June 30, 2001.

Investments held by trustees in the plant funds group are for the future payments of principal, interest and construction expenditures in accordance with various indentures and other long-term debt requirements. The fair value of these investments was \$166.7 million at June 30, 2001.

#### 4. DUE FROM / TO OTHER FUNDS

The state of California agreed to make contributions related to certain prior years to the University of California Retirement Plan in annual installments over 30 years. During the year ended June 30, 2001 the state of California contributed \$11.3 million under the terms of these agreements, including interest. At June 30, 2001 the remaining amount owed to the retirement plan by the state was \$94.5 million. That amount is recorded in the accompanying financial statements as a receivable from the state and as an interfund payable and receivable between the current unrestricted and retirement system funds.

Advances from endowment and similar funds of \$35.4 million have been made to other funds, principally plant funds. These advances mature between 2001 and 2024 and include interest rates ranging from zero to 12.0 percent.

#### 5. INVESTMENT IN PLANT

The capital asset activity for the year ended June 30, 2001 is as follows (in thousands of dollars):

	2000	Additions	Disposals	2001
Land	\$ 323,141	\$ 10,846	\$ (2,058)	\$ 331,929
Buildings and improvements	9,695,699	513,719	(11,712)	10,197,706
Equipment	3,457,341	450,085	(214,745)	3,692,681
Libraries and collections	2,445,332	101,959		2,547,291
Construction in progress	943,869	492,052		1,435,921
<b>Capital assets</b>	<b>\$16,865,382</b>	<b>\$1,568,661</b>	<b>\$(228,515)</b>	<b>\$18,205,528</b>

Total interest expense during the year ended June 30, 2001 was \$269.1 million. Interest expense of \$12.0 million associated with financing projects during the construction phase was

capitalized during the year ended June 30, 2001. The remaining \$257.1 million is reported as interest expense in the retirement of indebtedness fund.

#### 6. INVESTMENT IN UCSF STANFORD HEALTH CARE

The affiliation between the University and Stanford University creating UCSF Stanford Health Care (the Corporation), a separate non-profit corporation formed through the merger of the University of California, San Francisco (UCSF) Medical Center and Stanford Health Services, was terminated on March 31, 2000. Real and personal property leases between the University and the Corporation were cancelled. The majority of the University's share of the Corporation's net assets was distributed to the University on April 1, 2000.

Distribution of the University's final share of the net assets of the joint venture, represented by the remaining Investment in UCSF Stanford Health Care of \$6.8 million at June 30, 2001, is dependent upon the satisfactory completion of certain events specified in the dissolution agreement.

#### 7. SELF-INSURANCE PROGRAMS

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded in the current funds group when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based upon an independent actuarial determination of the anticipated future payments discounted at rates ranging from 6.25 percent to 7.5 percent.

Changes in self-insurance liabilities for years ended June 30, 2000 and June 30, 2001 are as follows (in thousands of dollars):

	Medical Malpractice	Workers' Compensation	Employee Health Care	General Liability	Total
Liability at June 30, 1999	\$139,000	\$109,700	\$ 21,200	\$ 60,100	\$ 330,000
Claims incurred and changes in estimates	50,700	65,600	107,000	18,400	241,700
Claim payments	(41,700)	(48,600)	(107,800)	(11,300)	(209,400)
<b>Liability at June 30, 2000</b>	<b>148,000</b>	<b>126,700</b>	<b>20,400</b>	<b>67,200</b>	<b>362,300</b>
Claims incurred and changes in estimates	50,800	95,300	88,200	13,500	247,800
Claim payments	(47,400)	(55,200)	(88,600)	(16,100)	(207,300)
<b>Liability at June 30, 2001</b>	<b>\$151,400</b>	<b>\$166,800</b>	<b>\$ 20,000</b>	<b>\$ 64,600</b>	<b>\$ 402,800</b>

## 8. LONG-TERM OBLIGATIONS

The University may finance the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations, including revenue bonds, certificates of participation, commercial paper, mortgages and other borrowings and capital lease obligations.

Revenue bonds and certificates of participation have financed various auxiliary, administrative, academic and research facilities of the University. They have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions.

The activity with respect to long-term obligations for the year ended June 30, 2001 is as follows (in thousands of dollars):

	2000	New Long-Term Obligations	Principal Reductions	2001
Revenue bonds	\$2,754,000	\$428,265	\$ (70,375)	\$3,111,890
Certificates of participation	304,865		(10,800)	294,065
Commercial paper	550,000			550,000
Mortgages and other borrowings	150,164	11,591	(111,069)	50,686
Capital leases	1,211,617	24,260	(71,322)	1,164,555
<b>Long term obligations</b>	<b>\$4,970,646</b>	<b>\$464,116</b>	<b>\$(263,566)</b>	<b>\$5,171,196</b>

Long-term obligations at June 30, 2001 by fund group, with comparative totals for 2000, are as follows (in thousands of dollars):

	Interest Rates	Maturity Years	Long - term obligations				
			Current Funds	Loan Funds	Plant Funds	2001	2000
University of California Multiple Purpose Projects Revenue Bonds	4.0-12.0%	2002-2031			\$2,104,410	\$2,104,410	\$1,785,705
University of California Housing System Revenue Bonds	5.0-5.5%	2002-2019			201,470	201,470	211,790
University of California Hospital Revenue Bonds	4.1-10.0%	2002-2032			623,365	623,365	564,735
University of California Research Facilities Revenue Bonds	4.1-10.0%	2002-2028			180,200	180,200	183,420
University of California Revenue Bonds for student centers	5.7-5.8%	2002-2008			840	840	945
Revenue bonds collateralized by purchased faculty mortgage loans	7.8%	2002-2018		\$1,605		1,605	7,405
Total revenue bonds				\$1,605	\$3,110,285	\$3,111,890	\$2,754,000
University of California certificates of participation	4.0-10.0%	2002-2030			\$ 294,065	\$ 294,065	\$ 304,865
Commercial paper	2.4-4.2%	2002	\$1,034		\$ 548,966	\$ 550,000	\$ 550,000
Mortgages and other borrowings	Various	2002-2013			\$ 50,686	\$ 50,686	\$ 150,164
Capital lease obligations	2.8-11.5%	2002-2023			\$1,164,555	\$1,164,555	\$1,211,617

## REVENUE BONDS

Revenue bonds for auxiliary enterprises and medical centers are collateralized by a pledge of the net revenues generated by the enterprises. Revenue bonds for research facilities and certain revenue bonds for administrative and academic facilities are collateralized by a pledge of the University's share of indirect cost recoveries received on federal research grants and contracts performed by the University. Revenue bonds are generally not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents.

In September 2000, Multiple Purpose Projects Revenue Bonds totaling \$359.3 million were issued to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the University, including student housing, faculty housing, parking facilities, student centers, recreation and events facilities and certain academic and administrative facilities. Proceeds were used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including outstanding bank loans of \$19.5 million and commercial paper of \$236.8 million. The bonds have a weighted average interest rate of 5.1 percent.

In December 2000, Hospital Revenue Bonds totaling \$69.0 million were issued to refinance the acquisition, construction and equipping of the Thornton Hospital, a portion of the University of California, San Diego Medical Center. Proceeds were used to prepay the outstanding note on the Thornton Hospital. The bonds have a weighted average interest rate of 5.2 percent.

In July 2001, Multiple Purpose Projects Revenue Bonds totaling \$131.9 million were issued to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the University, including student housing, parking facilities, student centers, events facilities and certain academic and administrative facilities. Proceeds are available to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including commercial paper of \$90.4 million. The bonds have annual principal and semiannual interest payments, a weighted average interest rate of 5.1 percent, serial maturities, term bonds and sinking fund requirements and optional redemption provisions.

## CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. The rental payments have been assigned to a trustee by the lessor.

## COMMERCIAL PAPER

The University has available a \$550.0 million commercial paper program with tax-exempt and taxable components to provide for interim financing of construction and related equipment and medical center working capital requirements. The program is supported by the legally available unrestricted cash balance in the STIP. Commercial paper is not collateralized by any encumbrance, mortgage or other pledge of property and does not constitute a general obligation of The Regents. Interest rates on the outstanding tax-exempt and taxable commercial paper range from 2.4 percent to 3.0 percent and 3.7 percent to 4.2 percent, respectively. The components of the commercial paper outstanding at June 30 are as follows (in thousands of dollars):

	2001	2000
Tax-exempt	\$430,000	\$430,000
Taxable	120,000	120,000
<b>Total outstanding</b>	<b>\$550,000</b>	<b>\$550,000</b>

## MORTGAGES AND OTHER BORROWINGS

Mortgages and other borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are collateralized by real property. Included in mortgages and other borrowings are various uncollateralized financing agreements with commercial banks totaling approximately \$22.7 million.

## CAPITAL LEASES

The University has entered into lease-purchase agreements with the state of California, recorded as capital leases. The state sells lease revenue bonds to finance construction and equipping of certain state-owned buildings to be used by the University. During the construction phase, the University acts as agent for the state. Upon completion, the buildings and equipment are leased to the University under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide general fund appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University.

Capital leases entered into with other lessors, primarily for equipment, totaled \$24.3 million.

For the year ended June 30, 2001 debt service payments include \$102.8 million, \$41.7 million for principal and \$61.1 million for interest, provided by state of California general fund appropriations to the University under the terms of the lease-purchase agreements. The appropriation is recorded as revenue in the University's financial statements.

## FUTURE DEBT SERVICE

Future debt service payments for each of the five fiscal years subsequent to June 30, 2001 and thereafter are as follows (in thousands of dollars):

Year Ending June 30	Revenue Bonds	Certificates of Participation	Commercial Paper	Mortgages and Other Borrowings	Capital Leases		Total Payments	Principal	Interest
					State	Other			
2002	\$ 242,672	\$ 25,737	\$552,756	\$ 7,729	\$ 100,854	\$24,917	\$ 954,665	\$ 704,982	\$ 249,683
2003	246,087	25,745		18,599	101,166	20,171	411,768	174,920	236,848
2004	243,965	25,687		14,174	101,177	13,974	398,977	173,954	225,023
2005	244,017	25,597		4,307	100,980	8,351	383,252	169,518	213,734
2006	243,873	25,590		6,858	100,164	4,635	381,120	177,325	203,795
2007 - 2011	1,217,694	124,135		7,680	471,676	6,301	1,827,486	961,645	865,841
2012 - 2016	1,180,964	96,560		21	408,341	1,475	1,687,361	1,090,330	597,031
2017 - 2021	854,014	91,087			270,796	1,946	1,217,843	881,686	336,157
2022 - 2026	626,299	33,837			83,337		743,473	615,560	127,913
2027 - 2031	221,878	15,654					237,532	214,990	22,542
2032 - 2036	6,442						6,442	6,286	156
<b>Total future debt service</b>	<b>5,327,905</b>	<b>489,629</b>	<b>552,756</b>	<b>59,368</b>	<b>1,738,491</b>	<b>81,770</b>	<b>\$8,249,919</b>	<b>\$5,171,196</b>	<b>\$3,078,723</b>
Less: Interest component of future payments	2,216,015	195,564	2,756	8,682	644,508	11,198			
<b>Principal portion of future payments</b>	<b>\$3,111,890</b>	<b>\$294,065</b>	<b>\$550,000</b>	<b>\$50,686</b>	<b>\$1,093,983</b>	<b>\$70,572</b>			

Long-term obligations do not include \$668 million of various defeased liabilities as of June 30, 2001. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the accompanying balance sheet.

## 9. RETIREMENT PLANS

Most University employees participate in UCRS. UCRS consists of a single employer, defined benefit plan funded with University and employee contributions, a defined benefit plan for University employees who elected early retirement under the Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP) and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions.

### UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

The University of California Retirement Plan (UCRP) is a defined benefit plan that provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50 percent time for a year or more. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with

certain cost of living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a 36-month period.

Members' contributions to UCRP are accounted for separately and accrue interest at 6 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect a lump sum equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

At June 30, 2001 plan membership totaled 167,810, comprised of 34,684 retirees and beneficiaries currently receiving benefits, 23,278 inactive members and 109,848 active members. The inactive members include 18,685 terminated vested employees entitled to benefits but not yet receiving them and 4,593 terminated nonvested employees entitled to a refund of their plan accumulations. The active members include 62,063 current employees who are fully vested. The active members also include 47,785 nonvested current employees covered by the plan.

The Regents' funding policy provides for actuarially determined contributions at rates that provide for sufficient assets to be available when benefits are due. The contribution rate is determined using the entry age normal actuarial funding method. The significant actuarial assumptions used to compute the actuarially determined contribution are the same as those used to compute the actuarial accrued liability.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the State of California.

Employee contributions may be required to be made to the University of California Retirement Plan. The rate of employee contributions is established annually pursuant to The Regents' funding policy, as a percentage of covered wages, recommended and certified by an enrolled, independent actuary and approved by The Regents, the plan's trustee. During the year ended June 30, 2001 employee contributions to the University of California Retirement Plan were redirected to the University of California Defined Contribution Plan.

For the year ended June 30, 2001 there was no employer contribution, annual pension cost or net pension obligation. The annual pension cost was equal to the actuarially determined contributions.

The annual required contribution for the current year was determined as part of the June 30, 2001 actuarial valuation, which is the latest available information, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation were:

- assumed return on investment of 7.5 percent per year;
- projected salary increases ranging from 4.5-6.5 percent per year;
- projected inflation at 4 percent;
- future life expectancy based upon recent group annuitant experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of investments over a five-year period. The actuarial value of assets in excess of the actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001, was 18.2 years.

In January 2001, The Regents approved changes to the benefit provisions that became effective January 1, 2001. These changes increased the actuarial accrued liability by approximately \$800 million. There were no changes in actuarial assumptions or benefit provisions that significantly affected the actuarial accrued liability or contributions requirements for the years ended June 30, 2000 and June 30, 1999.

## UNIVERSITY OF CALIFORNIA PERS - VERIP

The University of California PERS-VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC-PERS members who elected early retirement under provisions of the plan. The University contributed to the California Public Employee Retirement System on behalf of these UC-PERS members. Of 1,579 eligible employees, 879 elected to retire under this voluntary early retirement program.

The cost of contributions made to the plan is borne entirely by the University and the DOE laboratories. Over the five-year period ended June 30, 1996 the University and DOE laboratories were required to make contributions to the plan as determined by the plan's consulting actuary sufficient to maintain the promised benefits and the qualified status of the plan. There were no contributions for the year ended June 30, 2001. Net assets available for plan benefits and the actuarial accrued liability as of June 30, 2001 were \$84.6 million and \$40.6 million, respectively.

## UNIVERSITY OF CALIFORNIA DEFINED CONTRIBUTION PLANS

The University maintains two defined contribution plans providing savings incentives and additional retirement security for all eligible University employees.

The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. In addition, the University has established a Tax Deferred 403(b) Plan (the 403(b) Plan). There are no employer contributions to either of these two plans. Participants in the DC Plan and the 403(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Treasurer of The Regents. They may also invest contributions in and transfer plan accumulations to certain external mutual funds on a custodial plan basis. The participants' interest in external mutual funds is shown separately on the University's financial statements.

The supplemental schedule of funding progress is as follows (in thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Excess	Funded Ratio	Annual Covered Payroll	Excess/ Covered Payroll
June 30, 2001	\$40,554,000	\$27,451,000	\$13,103,000	147.7 %	\$6,539,000	200.4 %
June 30, 2000	37,026,000	24,067,000	12,959,000	153.8	5,903,000	219.5
June 30, 1999	32,087,000	22,157,000	9,930,000	144.8	5,347,000	185.7

The DC Plan pretax contributions are fully vested and are mandatory for all employees who are members of the University of California Retirement Plan. Monthly employee contributions range from approximately 2 percent to 4 percent of covered wages depending upon whether wages are below or above the Social Security wage base. The 403(b) Plan and the DC Plan after-tax options are generally available to all University employees.

During the year, participants contributed \$238.2 million and \$377.1 million into the DC Plan and 403(b) Plan, respectively.

Beginning July 1, 1999 the University changed its accounting policy to include participants' interests in external mutual funds within Retirement Systems Funds in the financial statements. Accordingly, these amounts are included as investments and participants' defined contribution plan benefits on the Balance Sheet within the Retirement System Funds, and the related contribution and withdrawal activity is included on the Statement of Changes in Funds Balances. The cumulative effect of this change in accounting principle was an increase in the 1999 – 2000 beginning fund balance of \$1.23 billion.

Additional information on the retirement plans can be obtained from the 2000 – 2001 annual reports of the University of California Retirement Plan, the PERS-VERIP, and the DC Plan and 403(b) Plan.

## 10. OTHER POST EMPLOYMENT BENEFITS

The University provides certain health plan benefits to retired employees. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive University contributions for those benefits. There are nearly 35,900 retirees currently eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors was \$123.7 million for the year ended June 30, 2001.

## 11. ENDOWMENT FUNDS

### THE REGENTS' ENDOWMENTS

Endowment funds are administered either by the University or by campus foundations. The financial activities of the separately

The balances of the fund groups comprising the endowment and similar funds held by The Regents and administered by the University at June 30, 2001 are as follows (in thousands of dollars):

	Restricted		Unrestricted		Total	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Endowments	\$1,730,173	\$1,985,210	\$ 26,873	\$ 31,963	\$1,757,046	\$2,017,173
Funds functioning as endowment	1,319,459	1,552,842	842,089	962,695	2,161,548	2,515,537
Annuity and life income	50,229	124,365			50,229	124,365
<b>Regents' endowments</b>	<b>\$3,099,861</b>	<b>\$3,662,417</b>	<b>\$868,962</b>	<b>\$994,658</b>	<b>\$3,968,823</b>	<b>\$4,657,075</b>

incorporated campus foundations are not included in the University's financial statements until such time as gifts are transferred from the campus' foundation to the University.

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution funded by dividend and interest income and by capital gains may vary significantly from year to year. Endowment income capitalized to endowment principal is available to meet future spending needs.

The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based upon a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents was \$165.8 million for the year ended June 30, 2001. Amounts allocated in the current fiscal year to fund next year's operating distribution exceeded income earned by \$18.5 million.

### CAMPUS FOUNDATIONS

Under University policies approved by The Regents, individual campus foundations may be established to provide valuable assistance in fundraising, public outreach and other support for the missions of the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

The campus foundations may manage the investment of their funds, or the University may manage a portion of their investments. The fair value of the foundations' interest in University-managed investments totaling \$530.4 million is included in "Funds held for others" in the University's financial statements.

At June 30, 2000, the date of the most recently available financial information, campus foundation fund balances exceeded \$2.0 billion, but are not included in the University's financial statements under generally accepted accounting principles. During the year, gifts of \$251.3 million transferred from campus foundations were recorded in current funds.

## 12. COMMITMENTS AND CONTINGENCIES

Amounts committed but unexpended for construction projects as of June 30, 2001 totaled \$2.16 billion.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenditures for the year ended June 30, 2001 were \$79.3 million. The terms of operating leases extend through the year ending 2041.

Future minimum payments on operating leases with an initial or remaining noncancelable term in excess of one year are as follows (in thousands of dollars):

Year ending June 30	Minimum Annual Lease Payments
2002	\$ 61,129
2003	56,726
2004	50,456
2005	45,621
2006	36,650
2007 – 2011	100,293
2012 – 2016	2,532
2017 – 2021	2,855
2022 – 2026	3,224
2027 – 2031	3,640
2032 – 2036	4,116
2037 – 2041	3,283
<b>Total</b>	<b>\$370,525</b>

Substantial amounts are received and expended by the University under other federal and state grants and contracts, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial statements.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the financial statements.

# Governmental Cost Funds

## Transportation Funds

### Balance Sheet

**June 30, 2000**

(Amounts in thousands)

	Aeronautics Account	
	Aeronautics Account (0041)	Local Airport Loan Account (0052)
<b>ASSETS</b>		
Cash in State Treasury and Agency Accounts .....	\$ —	\$ 1
Deposits in Surplus Money Investment Fund .....	18,836	5,767
Receivables .....	—	594
Due from Other Funds .....	1,135	188
Due from Other Governments .....	—	—
Prepaid Expenses .....	—	—
Advances and Loans Receivable .....	1,500	800
Other Assets .....	—	—
<b>Total Assets</b> .....	<b>\$ 21,471</b>	<b>\$ 7,350</b>
<b>LIABILITIES</b>		
Accounts Payable .....	\$ 25	\$ —
Due to Other Funds .....	441	3,884
Due to Other Governments .....	—	—
Advance Collections .....	—	—
Deposits .....	—	—
Advances from Other Funds .....	—	—
Other Liabilities .....	—	—
<b>Total Liabilities</b> .....	<b>466</b>	<b>3,884</b>
<b>FUND BALANCE</b>		
Reserved for Encumbrances .....	12,338	—
Reserved for Unencumbered Balances of Continuing Appropriations .....	3	—
Contingency Reserve for Economic Uncertainties .....	8,664	3,466
Unreserved-Undesignated .....	—	—
<b>Total Fund Balance</b> .....	<b>21,005</b>	<b>3,466</b>
<b>Total Liabilities and Fund Balance</b> .....	<b>\$ 21,471</b>	<b>\$ 7,350</b>

Bicycle Transportation Account (0045)	Highway Users Tax Account (0062)	Mass Transit Revolving Account (0055)	Motor Carriers Permit Fund (0292)	Motor Carriers Safety Improvement Fund (0293)	Motor Vehicle Account	
					Motor Vehicle Account (0044)	New Motor Vehicle Board Account (0054)
\$ 1	\$ 839	\$ 1	\$ —	\$ 1	\$ 109,772	\$ 2,267
3,473	—	999	7,988	1,755	356,147	—
—	—	—	—	—	4,690	—
99	329,485	—	585	150	110,977	1
—	—	—	—	—	3,864	—
—	—	—	—	—	15,768	—
100	—	—	—	—	—	—
—	—	—	—	—	1,737	—
<b>\$ 3,673</b>	<b>\$ 330,324</b>	<b>\$ 1,000</b>	<b>\$ 8,573</b>	<b>\$ 1,906</b>	<b>\$ 602,955</b>	<b>\$ 2,268</b>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 45,594	\$ —
—	218,780	—	910	237	131,386	238
—	110,661	—	38	—	1,591	—
—	—	—	63	—	572	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	2	—	22,735	—
—	<b>329,441</b>	—	<b>1,013</b>	<b>237</b>	<b>201,878</b>	<b>238</b>
2,209	—	—	—	15	84,429	—
362	—	—	—	—	15,482	—
1,102	883	1,000	7,560	1,654	301,166	2,030
—	—	—	—	—	—	—
<b>3,673</b>	<b>883</b>	<b>1,000</b>	<b>7,560</b>	<b>1,669</b>	<b>401,077</b>	<b>2,030</b>
<b>\$ 3,673</b>	<b>\$ 330,324</b>	<b>\$ 1,000</b>	<b>\$ 8,573</b>	<b>\$ 1,906</b>	<b>\$ 602,955</b>	<b>\$ 2,268</b>

(Continued)

# Governmental Cost Funds

## Transportation Funds

### Statement of Operations

**Year Ended June 30, 2000**

(Amounts in thousands)

	Aeronautics Account	
	Aeronautics Account (0041)	Local Airport Loan Account (0052)
<b>FUND BALANCE, JULY 1, 1999 .....</b>	<b>\$ 15,715</b>	<b>\$ 8,509</b>
<b>ADDITIONS</b>		
Revenues .....	952	1,383
Transfers from Other Funds .....	9,051	—
Prior Year Revenue Adjustments .....	1	(44)
Other Additions .....	—	1,709
<b>Total Additions .....</b>	<b>10,004</b>	<b>3,048</b>
<b>DEDUCTIONS</b>		
Appropriation Expenditures		
State Operations .....	2,269	—
Local Assistance .....	2,407	8,091
Capital Outlay .....	—	—
<b>Total Appropriation Expenditures.....</b>	<b>4,676</b>	<b>8,091</b>
Transfers to Other Funds .....	30	—
Adjustments to Prior Year Appropriation Expenditures .....	8	—
Other Deductions .....	—	—
<b>Total Deductions .....</b>	<b>4,714</b>	<b>8,091</b>
<b>FUND BALANCE, JUNE 30, 2000 .....</b>	<b>\$ 21,005</b>	<b>\$ 3,466</b>

Bicycle Transportation Account (0045)	Highway Users Tax Account (0062)	Mass Transit Revolving Account (0055)	Motor Carriers Permit Fund (0292)	Motor Carriers Safety Improvement Fund (0293)	Motor Vehicle Account	
					Motor Vehicle Account (0044)	New Motor Vehicle Board Account (0054)
\$ 2,984	\$ 258	\$ 1,000	\$ 7,161	\$ 1,938	\$ 363,286	\$ 2,950
181	12	—	9,301	107	1,276,161	425
1,000	2,933,780	—	45	682	135,284	—
—	—	—	—	—	11,925	—
—	—	6,293	—	—	—	—
1,181	2,933,792	6,293	9,346	789	1,423,370	425
9	774	—	4,571	1,042	1,198,106	1,366
505	1,026,423	—	—	—	7,511	—
—	—	—	—	—	7,867	—
514	1,027,197	—	4,571	1,042	1,213,484	1,366
—	1,905,970	—	4,259	—	176,336	—
(22)	—	—	117	16	(4,241)	(21)
—	—	6,293	—	—	—	—
492	2,933,167	6,293	8,947	1,058	1,385,579	1,345
\$ 3,673	\$ 883	\$ 1,000	\$ 7,560	\$ 1,669	\$ 401,077	\$ 2,030

(Continued)